

**OFFICIAL FILE**  
**ILLINOIS COMMERCE COMMISSION**

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Res. **ORIGINAL** Exhibit A  
ILLINOIS  
COMMERCE COMMISSION  
MAR 12 9 59 AM '01  
CHIEF CLERK'S OFFICE

Illinois Commerce Commission )

On Its Own Motion, )

v. )

North Shore Gas Company )

00-0719

Reconciliation of revenues )  
collected under fuel and gas )  
adjustment charges with actual )  
costs. )

**DIRECT TESTIMONY**  
**OF**  
**VALERIE H. GRACE**

- 1 Q. Please state your name and business address.
- 2 A. Valerie H. Grace, 130 East Randolph Drive, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. The Peoples Gas Light and Coke Company ("Peoples Gas").
- 5 Q. What position do you hold with Peoples Gas?
- 6 A. I am Director of Rates and Gas Transportation Services.
- 7 Q. What are your responsibilities in that position?
- 8 A. I am responsible for directing the activities of the Rates and Gas
- 9 Transportation Services Departments and for making recommendations
- 10 regarding rate policies for Peoples Gas and Respondent, North Shore Gas
- 11 Company.
- 12 Q. Please summarize your educational background and experience.

13 A. In 1980, I graduated from Illinois State University with a Bachelor of  
14 Science Degree in Business Administration. In 1988, I received a Masters of  
15 Management Degree from Northwestern University. I have been employed by  
16 Peoples Gas from September, 1980 to the present. I began my employment in  
17 what is now the Gas Supply Planning Department. In September, 1992, I was  
18 transferred to what is now the Rates Department. In February, 1993, I was  
19 transferred to the Office of the Chairman. In April, 1994, I was transferred to the  
20 Executive Office of what is now the Customer Service Division. In April, 1995, I  
21 returned to the Gas Supply Planning Department. In September, 1995, I was  
22 transferred into the Rates Department as Supervisor. In November, 1996, I was  
23 promoted to Manager of the Rates Department, and in June, 1997, I was  
24 promoted to my present position.

25 Q. Please give a brief description of the operations and status of Respondent.

26 A. I am advised by counsel that Respondent is a corporation organized and  
27 existing under the laws of the State of Illinois, having its principal office at 130  
28 East Randolph Drive, Chicago, Illinois 60601. It is engaged in the business of  
29 purchasing, storing, distributing, selling and transporting natural gas to over  
30 149,000 customers. Respondent's service territory covers approximately 275  
31 square miles in the eastern portion of Lake County and a small portion of  
32 northeastern Cook County. I am advised by counsel that Respondent is a public  
33 utility within the meaning of the Public Utilities Act.

34 Q. Please describe the subject matter of this proceeding.

35 A. Pursuant to Section 9-220 of the Public Utilities Act, on November 8, 2000,  
36 the Illinois Commerce Commission ("Commission") entered a citation order  
37 ("order") directed to fourteen Illinois gas and electric utilities, including  
38 Respondent. The order requires Respondent to present evidence to the  
39 Commission at a public hearing in Docket No. 00-0719 reconciling revenue  
40 collected under the purchased gas adjustment clause (Rider 2, Gas Charge, of  
41 Respondent's Schedule of Rates) with the actual costs prudently incurred and  
42 recoverable under Rider 2, for the twelve months ended September 30, 2000,  
43 Respondent's fiscal 2000. The order also requires Respondent's filing to reflect  
44 fourteen specified data for each of its Gas Charges. The order further requires  
45 that notice of the filing of this evidence be made in accordance with the  
46 requirements of 83 Illinois Administrative Code Part 255. In this proceeding,  
47 Respondent is making an evidentiary showing in order to satisfy the  
48 requirements of the Commission's order.

49 Q. Please describe the notice given by Respondent of the filing in this case.

50 A. At the time the filing in the above-captioned proceeding was made,  
51 Respondent placed copies of the filed evidence, available for public inspection, in  
52 each of its offices. Public notice of the filing was also posted in each of these  
53 offices. Further, Respondent published notice of the filing once each week for  
54 two consecutive weeks in the Waukegan News-Sun, a secular newspaper of  
55 general circulation in Respondent's service territory.

56 Q. Please describe Respondent's Exhibit 1.

57 A. Respondent's Exhibit 1 includes a copy of the audit report of Respondent's  
58 independent public accountants, Arthur Andersen, LLP and the verification by  
59 Respondent's Vice President, Katherine A. Donofrio. The audit report includes a  
60 copy of Respondent's Statement to Illinois Commerce Commission,  
61 Determination of Reconciliation Balance for Gas Charge for Fiscal Year 2000  
62 ("Statement"), as described in Rider 2, Section G, of Respondent's Schedule of  
63 Rates.

64 Q. Was the Statement prepared under your supervision and direction?

65 A. Yes, it was.

66 Q. Are the verification and the audit report true and correct copies of Ms.  
67 Donofrio's verification and the audit report of the independent public accounts?

68 A. Yes, they are.

69 Q. What are the types of Gas Charges that Respondent files pursuant to its  
70 Rider 2 and what costs do the Gas Charges recover?

71 A. Each month, Respondent files a Commodity Gas Charge ("CGC"), a Non-  
72 Commodity Gas Charge ("NCGC"), a Demand Gas Charge ("DGC") and a  
73 Transition Surcharge ("TS"). The sum of the CGC, NCGC and TS is the Gas  
74 Charge, which is applied to all Company-supplied therms except standby therms  
75 supplied to transportation customers. Standby therms are priced at the standby  
76 commodity charge, which is the sum of the CGC, 50% of the NCGC and the TS.  
77 The CGC recovers commodity-related costs. The NCGC recovers non-  
78 commodity related costs. The DGC also recovers non-commodity related costs,  
79 but from transportation customers. A factor of 50% is applied to the DGC, which

80 is applied to each therm of transportation customers' contracted for standby  
81 service. Revenues arising from the application of the DGC are credited against  
82 the non-commodity related costs used in computing the NCGC. As both the  
83 NCGC and DGC recover non-commodity related costs, revenues recovered  
84 under these charges are jointly reconciled with such costs. Finally, the TS, which  
85 is applied to each therm delivered by Respondent, recovers pipeline gas supply  
86 realignment transition costs.

87 Q. The Commission's order requires Respondent to include certain data for  
88 the prior reconciliation year in its determination of the current year's  
89 reconciliation. Please specify any unamortized Factor A balance at the end of  
90 fiscal 1999.

91 A. The unamortized Factor A balance at the end of fiscal 1999 for each  
92 respective gas charge is shown on Page 2, Line 1, of Respondent's Exhibit 1.  
93 Respondent's unamortized Factor A balance at the end of fiscal 1999 reflects a  
94 recoverable balance of \$559,901.16 for the CGC, a recoverable balance of  
95 \$1,264,173.58 for the NCGC and DGC, and a recoverable balance of \$1,903.78  
96 for the TS, for a total recoverable balance of \$1,825,978.52. These amounts are  
97 also reflected on Page 2, Line 13, of Respondent's Statement to Illinois  
98 Commerce Commission, Determination of Reconciliation Balance for Gas  
99 Charge for Fiscal Year 1999 ("1999 Statement"). This document was submitted  
100 as Exhibit 2 in my direct testimony in Docket No. 99-0482, Reconciliation of  
101 Revenues Collected Under Fuel and Gas Adjustment Charges with Actual Costs  
102 for fiscal 1999.

103 Q. Please specify the total adjustments to gas costs (that is, Factor A) that  
104 were amortized to Schedule I in Respondent's fiscal 1999 monthly filings but  
105 were not yet reconciled through Schedule II of Respondent's monthly filings at  
106 September 30, 1999.

107 A. Total unreconciled adjustments to gas costs (Factor A) reflect a  
108 recoverable amount of \$282,137.43 for the CGC, a recoverable amount of  
109 \$269,147.04 for the NCGC and DGC and a recoverable amount of \$2,067.72 for  
110 the TS, for a total recoverable Factor A of \$553,352.19. These adjustments, for  
111 the reported months of August and September, 1999, were not yet reconciled at  
112 the end of fiscal 1999. However, they are reflected in the CGC, NCGC and  
113 DGC, and TS Gas Charges for the effective months of October and November,  
114 1999, which fall within fiscal 2000. These amounts are shown on Page 2, Line 2,  
115 of Respondent's Exhibit 1. They are also reflected on Page 2, Line 12, of  
116 Respondent's 1999 Statement.

117 Q. Please specify any Factor O amounts requested by Respondent for fiscal  
118 1999 and collected and refunded by Respondent during fiscal 2000.

119 A. In Docket No. 99-0482, Respondent requested that the Commission  
120 approve for recovery a Factor O amount of \$9,068.90 for fiscal 1999. As of  
121 March 9, 2001, the Commission has not issued its final order approving  
122 Respondent's filing, and this amount was not collected during fiscal 2000.

123 Q. What was Respondent's refundable or recoverable balance for fiscal  
124 1999?

125 A. Respondent's refundable or recoverable balance for fiscal 1999 , which is  
126 determined by summing the amounts on Page 2, Lines 1 through 3, of  
127 Respondent's Exhibit 1, reflects a recoverable balance of \$842,038.59 for the  
128 CGC, a recoverable balance of \$1,533,320.62 for the NCGC and DGC, and a  
129 recoverable balance of \$ 3,971.50 for the TS, for a total recoverable balance of  
130 \$2,379,330.71. These amounts are shown on Page 2, Line 4, of Respondent's  
131 Exhibit 1. These amounts are also reflected on Page 2, Line 11 of Respondent's  
132 1999 Statement. However, the recoverable balance of \$1,542,389.52 for the  
133 NCGC and DGC includes the uncollected Factor O amount of \$9,068.90.

134 Q. What are Respondent's fiscal 2000 recoverable gas costs and revenues?

135 A. Recoverable gas costs are summarized and shown on Page 2, Line 5, of  
136 Respondent's Exhibit 1. Recoverable gas costs amount to \$75,182,337.22 for  
137 the CGC and \$15,649,829.97 for the NCGC and DGC, for a total of  
138 \$90,832,167.19 to be recovered under the Gas Charge. There are no  
139 recoverable gas costs for the TS due to the termination of pipeline transition  
140 costs in November 1997, Respondent's fiscal 1998. Although there are no  
141 recoverable gas costs for the TS in fiscal 2000, there are revenues arising  
142 through the application of the TS, which are recovered under the Gas Charge.  
143 These amounts, which are insignificant, arise from billing adjustments and flow  
144 through Factor A of the TS. Revenues are summarized and shown on Page 2,  
145 Line 6, of Respondent's Exhibit 1. Revenues arising through the application of  
146 each Gas Charge amount to \$68,280,891.68 for the CGC, \$15,314,067.09 for  
147 the NCGC and DGC and negative \$6,105.48 for the TS, for a total of

148 \$83,588,853.29 recovered under the Gas Charge. Recoverable gas costs and  
149 revenues are shown in more detail on Pages 3, 4 and 5 of Respondent's Exhibit  
150 1 for the CGC, NCGC and DGC, and TS respectively.

151 Q. Please specify the pipeline refunds or surcharges that Respondent  
152 separately reported in fiscal 2000 monthly Gas Charge filings.

153 A. Pipeline refunds and surcharges, which are summarized and shown on  
154 Page 2, Line 7, of Respondent's Exhibit 1, include a refund of \$30,958.44 for the  
155 NCGC and DGC.

156 Q. Please specify any other adjustments that were separately reported in  
157 fiscal 2000.

158 A. There were no other adjustments that were separately reported in fiscal  
159 2000.

160 Q. Please specify the interest, calculated pursuant to Section 525.50 of the  
161 Commission's rules, for inclusion in Adjustments to Gas Costs (Factor A).

162 A. Interest, calculated pursuant to Section 525.50, for inclusion in  
163 Adjustments to Gas Costs (Factor A), is shown on Page 2, Line 9, of  
164 Respondent's Exhibit 1, and reflects a recoverable amount of \$93,293.70 for the  
165 CGC, a refundable amount of \$5,322.32 for the NCGC and DGC and a  
166 recoverable amount of \$358.43 for the TS, for a total recoverable amount of  
167 \$88,329.81.

168 Q. What was Respondent's over- or under-recovery for fiscal 2000?

169 A. Respondent's over- or under-recovery for fiscal 2000 is shown on Page 2,  
170 Line 10, of Respondent's Exhibit 1. The over- or under-recovery for each Gas

171 Charge can be determined by deducting the amount on Line 6 (revenues arising  
172 through the application of each gas charge) from the amount on Line 5 (costs  
173 recoverable through each gas charge) and adding the amounts on Line 7  
174 (separately reported pipeline refunds and surcharges), Line 8 (separately  
175 reported other adjustments), and Line 9 (interest). Using this calculation,  
176 Respondent's over- or under-recovery for fiscal 2000 reflects an under-recovery  
177 of \$6,994,739.24 for the CGC, an under-recovery of \$299,482.12 for the NCGC  
178 and DGC, and an under-recovery of \$6,463.91 for the TS, for a total under-  
179 recovery of \$7,300,685.27.

180 Q. Please specify the recovery balance for the reconciliation year.

181 A. The recovery balance for the reconciliation year, which reflects the sum of  
182 the (refundable)/recoverable balances for fiscal years 1999 and 2000 for each  
183 respective gas charge, is shown on Page 2, Line 11, of Respondent's Exhibit 1.  
184 This amount, which can be determined by summing the amounts on Line 4 (fiscal  
185 1999 balance) and Line 10 (fiscal 2000 balance), reflects an under-recovery of  
186 \$7,836,777.83 for the CGC, an under-recovery of \$1,832,802.74 for the NCGC  
187 and DGC and an under-recovery of \$10,435.41 for the TS, for a total under-  
188 recovery of \$9,680,015.98.

189 Q. Please specify the total adjustments to gas costs (that is, Factor A) that  
190 were amortized to Schedule I in Respondent's fiscal 2000 monthly filings but  
191 were not yet reconciled through Schedule II of Respondent's monthly filings at  
192 September 30, 2000.

193 A. Total unreconciled adjustments to gas costs (Factor A), which are shown  
194 on Page 2, Line 12, of Respondent's Exhibit 1, reflect a recoverable amount of  
195 \$1,481,407.96 for the CGC, a recoverable amount of \$402,205.32 for the NCGC  
196 and DGC and a recoverable amount of \$1,581.44 for the TS, for a total  
197 recoverable Factor A of \$1,885,194.72. These adjustments, for the reported  
198 months of August and September, 2000, are not yet reconciled at the end of  
199 fiscal 2000. However, they are reflected in the CGC, NCGC and DGC, and TS  
200 Gas Charges for the effective months of October and November, 2000, which fall  
201 within fiscal 2001.

202 Q. Please specify any unamortized balance at the end of fiscal 2000.

203 A. The unamortized balance at the end of fiscal 2000 is shown on Page 2,  
204 Line 13, of Respondent's Exhibit 1. The unamortized balance for each  
205 respective Gas Charge can be derived by deducting the amount on Line 12 (total  
206 unreconciled Factor A adjustments) from the amount on Line 11 (the over- or  
207 under-recovery balance for the reconciliation year), less any Factor O amount  
208 where applicable. Respondent's unamortized balance at the end of fiscal 2000  
209 reflects a recoverable balance of \$6,355,369.87 for the CGC, a recoverable  
210 balance of \$1,430,597.42 for the NCGC and DGC, and a recoverable balance of  
211 \$8,853.97 for the TS, for a total recoverable balance of \$7,794,821.26.

212 Q. Please specify any Factor O amounts requested by Respondent for fiscal  
213 2000.

214 A. There are no Factor O amounts requested by Respondent for fiscal 2000.

215 Q. Does Respondent's Exhibit 1 include other reports that support the  
216 summary amounts shown on Page 2?

217 A. Yes. Respondent's Exhibit 1 includes a summary of the detailed Schedule  
218 II, Adjustments to Gas Costs (Factor A) reports that were filed as part of  
219 Respondent's monthly Gas Charge reports for fiscal 2000. Pages 6, 7 and 8 of  
220 Exhibit 1 reflect Schedule II reports that were filed for the CGC, NCGC and DGC,  
221 and TS, respectively. These reports reflect the monthly reconciliation of  
222 recoverable gas costs and Gas Charge revenues, adjustments to gas costs  
223 (Factor A), refunds and other adjustments, Factor A amortizations and  
224 unamortized balances, Factor O amortizations and unamortized balances, and  
225 interest determined for each Gas Charge. Finally, pages 9-10 of Exhibit 1  
226 contain notes that explain Gas Charge reconciliation summary items noted on  
227 page 2 of Exhibit 1.

228 Q. Does this conclude your direct testimony?

229 A. Yes, it does.